

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

**BAW4614 – ADVANCED FINANCIAL ACCOUNTING &
REPORTING**

(All sections / Groups)

5 JULY 2023
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 9 pages (excluding the cover) with 4 Questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.
4. All questions should be answered in **English**.

QUESTION 1

TES Bhd sells health monitoring devices for the elderly which include smartwatches, GPS tracker, finger oximeter, communication aids etc. TES Bhd is currently preparing its financial statements for the year ended 31 December 2022. The following balances have been extracted from the company's cloud-based nominal ledger at 31 December 2022.

	<u>Notes</u>	<u>RM</u>	<u>RM</u>
Ordinary share capital	(1)		700,000
Retained earnings at 31 December 2021			79,900
Revaluation surplus	(2)		60,000
Land and buildings			
Cost		380,100	
Accumulated depreciation at 31 December 2022			203,100
Plant and equipment			
Cost		263,400	
Accumulated depreciation at 31 December 2022	(3)		187,825
Intangible assets	(4)	173,750	
Trade receivables		384,280	
Inventories at 31 December 2021		413,150	
Cash at bank		65,200	
Trade payables	(5)		287,600
5% Convertible bonds	(6)		150,000
Revenue			2,700,200
Purchases	(5)	1,833,295	
Depreciation expenses	(3)	71,300	
Administrative expenses		784,150	
		<u>4,368,625</u>	<u>4,368,625</u>

Additional information:

- (1) On 1 January 2022, TES Bhd had 300,000 ordinary shares in issue. On 1 September 2022, TES Bhd made a 1 for 3 rights issue at RM1.20 per share. The proceeds were debited to cash and credited to ordinary share capital. The market price of one TES Bhd ordinary share immediately before the rights issue was RM1.40.
- (2) On 1 April 2022, TES Bhd recognised two new unique brands as intangible assets. The first brand, "Fitbit" was acquired for RM32,500 on 1 April 2022 and on the same date an internally generated brand, "Body Guardian" was also recognised. An external expert valued the internally generated brand at RM60,000 on 1 April 2022 and this was recognised in the revaluation surplus. The total of RM92,500 was debited to intangible assets. Both brands are estimated to have a six-year useful life from 1 April 2022, although no amortisation was recognised in the current year. All expenses relating to intangible assets should be recognised in cost of sales.

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- (3) Plant and equipment are depreciated on a straight-line basis over five years. The cost of plant and equipment in the trial balance includes a computer-aided design (CAD) machine purchased during the year for RM265,000. It was delivered and used from 1 February 2022 on the development of a GetSafe pendant (see Note (4) below) and will be used on future projects. Depreciation on plant and equipment, including the CAD machine, for the year ended 31 December 2022 was calculated correctly and posted to depreciation charges. The depreciation charge is recognised in cost of sales.
- (4) In 2021, the company commenced research into a GetSafe pendant, writing off costs to 31 December 2021 to cost of sales. On 1 April 2022, the GetSafe pendant project was assessed as meeting the criteria of IAS 38, *Intangible Assets* for capitalisation. Production began on 1 October 2022. The GetSafe pendant is expected to generate significant profits for three years before it is superseded.

The figure for intangible assets in the trial balance comprises the following.

	<u>RM</u>
Purchase of brand name, "Fitbit"	32,500
Valuation of brand name, "Body Guardian"	60,000
Cost of GetSafe pendant project from 1 Jan 2022 to 31 Mar 2022	22,800
Cost of GetSafe pendant project from 1 Apr 2022 to 30 Sep 2022:	
Development costs	51,300
Pre-launch testing costs	4,400
Staff training	2,750
	<u>173,750</u>

TES Bhd wishes to capitalise the maximum allowed under IFRS® Standards. All expenses relating to intangible assets should be presented in cost of sales.

- (5) At 31 December 2022, inventories were valued at RM369,560. However, TES Bhd had ordered some of its inventories from a China supplier on 1 November 2022 for RMB102,800. These goods were delivered on 1 December 2022 and were correctly recorded in purchase and trade payables. These inventories were not included in the inventory count as they had been stored in a different area. The invoice was unpaid at 31 December 2022.
- The spot exchange rates are as follows:
On 1 November 2022 – RMB1: RM0.85
On 1 December 2022 – RMB1: RM0.80
On 31 December 2022 – RMB1: RM0.70
- (6) On 1 January 2022, TES Bhd issued 15,000 5% RM10 convertible bonds at par. On 31 December 2024, each bond can be redeemed for cash at par or converted into two ordinary shares in TES Bhd. The interest due on the bonds at 31 December 2022 was unpaid. The equivalent effective interest rate on similar bonds without conversion rights is 7% pa. The only accounting entries made during the year ended 31 December 2022 in respect of the bonds were to debit cash and credit convertible bonds with RM150,000.

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- (7) An income tax refund for the year ended 31 December 2022 was confirmed by LHDN Malaysia at RM5,000, but it has not been recorded in the nominal ledger.

Requirements:

- (a) Prepare for TES Bhd a statement of profit or loss for the year ended 31 December 2022 and a statement of financial position as at that date in a form suitable for publication. (20 marks)
- (b) Calculate basic earnings per share for TES Bhd for the year ended 31 December 2022. (2.5 marks)
- (c) Representing the economic substance, rather than the legal form of a transaction, is required to achieve a faithful representation, one of the qualitative characteristics of the Conceptual *Framework*. Explain the concept of substance over form, illustrating it with **One** example. (2.5 marks)

(Total: 25 marks)

QUESTION 2

Peter, the finance director of Takaso Bhd, prepared the draft financial statements for the year ended 31 December 2022. The managing director has given Peter's file to Lucas, who is working in the finance department of Takaso Bhd on a temporary basis, to enable him to complete the financial statements. Both Peter and Lucas are ICAEW Chartered Accountants.

The managing director told Lucas that the directors need a large profit for the year ended 31 December 2022 as Takaso Bhd is seeking new investment to expand its operations further. The draft financial statements show a 30% increase in profit for the year from last year. To show the board's appreciation, the managing director has announced that if the new investment is obtained, all staff will be given shares in Takaso Bhd.

The draft profit for the year ended 31 December 2022 was RM673,400.

Peter's file contains the following outstanding items.

- (1) On 1 January 2022, Takaso Bhd entered into an agreement for the right to use a building for a 20-year period. The agreement meets the definition of a lease under IFRS 16, *Leases*. Ownership of the building passes to Takaso Bhd at the end of the lease term. Under the terms of the agreement, lease payments of RM480,000 pa are due to be paid annually in arrears. The building has an estimated useful life of 25 years. Takaso Bhd depreciates buildings on a straight-line basis. The present value of the future lease payments is RM4,086,720 and the rate of interest implicit in the lease is 10%. The lease payment made on 31 December 2022 was credited from cash and debited to administrative expenses.

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- (2) In December 2022, equipment was identified as potentially requiring unscheduled maintenance work. The equipment originally cost RM320,000 on 1 January 2018 and had an estimated useful life of eight years at that date. Depreciation is charged on a straight-line basis. The equipment was revalued on 31 December 2020 to RM232,000, with no change in its total useful life. Annual transfers between retained earnings and the revaluation surplus are made.

An impairment review was carried out on 31 December 2022 and the equipment was assessed as working at an acceptable level with a revised remaining useful life of four years. On that date the equipment's fair value was assessed as being RM50,000 with selling costs of RM800 and its value in use as RM56,000. No accounting entries have been made regarding this impairment review.

- (3) On 1 January 2022, Takaso Bhd borrowed RM960,000 at 6% pa to fund the construction of a new manufacturing facility. The facility is a qualifying asset per IAS 23, *Borrowing Costs*. The cash received was immediately placed on deposit, earning interest at 3% pa. Due to planning delays, construction did not begin until 1 March 2022, when Takaso Bhd transferred RM660,000 to the construction company. A further RM300,000 was transferred on 1 November 2022.

Peter credited all the interest received or receivable in 2022 to the statement of profit or loss and debited all the interest paid or payable in 2022 to property, plant and equipment. The loan is due to be repaid on 1 June 2023.

The facility was ready for use on 1 November 2022 but Takaso Bhd did not start using it until 1 December 2022. The facility has an estimated useful life of 10 years. Peter charged depreciation on the facility from 1 December 2022.

Requirements:

- (a) Explain the required IFRS® Standards financial reporting treatment of Issues (1) to (3) above in Takaso Bhd's financial statements for the year ended 31 December 2022, preparing all relevant calculations. (16 marks)
- (b) Calculate revised profit for the year figure for Takaso Bhd for the year ended 31 December 2022. (4 marks)
- (c) Discuss the ethical issues arising for Peter and Lucas from the scenario and set out any actions Lucas should take to address them. (5 marks)

(Total: 25 marks)

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QUESTION 3

On 1 January 2022, Time Berhad acquired 80% of Hour Berhad's ordinary shares. The following are the draft financial statements of Time Berhad and its subsidiary as at 30 June 2022:

	<u>Time Berhad</u> <u>RM</u>	<u>Hour Berhad</u> <u>RM</u>
EQUITY AND LIABILITIES		
Ordinary share capital (RM1 shares)	1,600,000	800,000
Retained earnings	2,462,600	1,566,000
	<u>4,062,600</u>	<u>2,366,000</u>
Current liabilities		
Trade and other payables	411,600	313,400
Taxation	174,000	184,000
	<u>585,600</u>	<u>497,400</u>
Total equity and liabilities	<u>4,648,200</u>	<u>2,863,400</u>
ASSETS		
Non-current assets		
Property, plant and equipment	2,533,600	1,905,200
Investments	590,000	-
	<u>3,123,600</u>	<u>1,905,200</u>
Current assets		
Inventories	728,400	396,800
Trade and other receivables	584,600	410,600
Cash and cash equivalents	211,600	150,800
	<u>1,524,600</u>	<u>958,200</u>
Total assets	<u>4,648,200</u>	<u>2,863,400</u>

Additional information:

- (1) The following consideration was used to acquire Hour Berhad's ordinary shares on 1 January 2022:
- The payment of RM400,000 in cash on 1 January 2022.
 - A payment of RM210,000 in cash, deferred until 1 January 2023. An appropriate discount rate is 5 % per annum.
 - 1,400,000 ordinary shares in Time Berhad. On 1 January 2022, one ordinary share of Time Berhad had a market value of RM1.30. By 30 June 2022, this increased to RM1.35.

The cash paid on 1 January 2022 was debited to investments and credited to cash, but Time Berhad did not record any entries pertaining to the other consideration.

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Hour Berhad earned RM211,800 in profit for the financial year ending 30 June 2022, which was distributed evenly throughout the year. Time Berhad uses the proportionate method to calculate Hour Berhad's non-controlling interest.

Except for a machine, whose fair value exceeded its carrying amount by RM48,000, the fair values of the identifiable assets acquired and liabilities assumed on the date of the acquisition of Hour Berhad by Time Berhad were equal to their carrying amounts. On 1 January 2022, the machine had five years of useful life remaining.

- (2) Time Berhad sold a machine to Hour Berhad for RM300,000 on 1 April 2022. At present, the machine's carrying amount in Time Berhad's accounting records was RM264,000, and its remaining useful life was estimated to be six years.
- (3) On 30 June 2022, Time Berhad's inventory included 50% of a consignment of goods purchased in June 2022 from Hour Berhad. Hour Berhad paid RM85,200 for these goods and generates a 20% gross margin on all sales. At the end of the fiscal year, Time Berhad's invoice for these goods remained unpaid.
- (4) On 1 January 2022, Time Berhad paid RM190,000 in cash to acquire 40 percent of Minute Berhad's ordinary shares, thereby gaining significant influence over Minute Berhad. On 1 January 2022, a property owned by Minute Berhad had an excess fair value of RM60,000 over its carrying amount and a useful life of 20 years remaining.

Minute Berhad earned a profit for the year of RM33,600 for the year ending 30 June 2022, which was distributed evenly throughout the year.

Requirements:

Prepare, with all relevant calculations, Time Group's consolidated statement of financial position as at June 30, 2022.

(Total: 25 marks)

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QUESTION 4**PART A**

Fruitty Berhad had investments in subsidiary companies and one associate company as at 1 April 2021. On 1 October 2021, Fruitty Berhad acquired 70,000 of the 100,000 ordinary shares issued by Lemon Berhad.

Extracts from the group's consolidated financial statements for the year ended 31 March 2022 are set out below.

**Consolidated statement of profit or loss
for the year ended 31 March 2022 (extract)**

	<u>RM</u>
Operating profit	734,200
Share of profits from associate	107,300
Profit before tax	841,500
Income tax expense	(144,000)
Profit for the year	697,500
Attributable to:	
Owners of Fruitty Berhad	567,680
Non-controlling interests	129,820
	<u>697,500</u>

Consolidated statement of financial position as at 31 March

	<u>2022</u> <u>RM</u>	<u>2021</u> <u>RM</u>
EQUITY AND LIABILITIES		
Equity		
Ordinary share capital (RM1 shares)	1,000,000	800,000
Share premium account	200,000	100,000
Retained earnings	659,600	741,920
Attributable to the equity holders of Fruitty Berhad	1,859,600	1,641,920
Non-controlling interests	458,000	471,080
	<u>2,317,600</u>	<u>2,113,000</u>
Current liabilities		
Trade and other payables	122,400	146,000
Income tax payable	170,000	138,000
	<u>292,400</u>	<u>284,000</u>
Total equity and liabilities	<u>2,610,000</u>	<u>2,397,000</u>

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ASSETS**Non-current assets**

Property, plant and equipment	1,669,000	1,537,800
Intangible assets	284,600	270,800
Investment in associate	536,000	455,000
	<u>2,489,600</u>	<u>2,263,600</u>

Current assets

Trade and other receivables	106,800	122,600
Cash and cash equivalents	13,600	10,800
	<u>120,400</u>	<u>133,400</u>

Total assets

	<u>2,610,000</u>	<u>2,397,000</u>
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Additional information:

- (1) At the date of acquisition, the assets and liabilities of Lemon Berhad were as shown in the 'Lemon Berhad's - statement of financial position' below.

All identifiable assets acquired and liabilities assumed had carrying amounts equal to their fair values, with the exception of a piece of land whose fair value exceeded its carrying amount by RM80,000.

The acquisition of Lemon Berhad generated RM46,800 in goodwill.

- (2) The consideration for the acquisition of Lemon Berhad shares included both cash and a premium share issue. No additional shares were issued during the year.
- (3) The following relates to the property, plant, and equipment movements for the year ending 31 March 2022: -
- A depreciation charge of RM471,200 was recognised.
 - Equipment was disposed of when its carrying amount was RM148,400. A profit of RM5,400 was made on the disposal.
 - As well as the additions from the acquisition of Lemon Berhad, a machine was acquired for cash.
- (4) Goodwill arising from the acquisition of subsidiaries is included among intangible assets. Other than the goodwill arising from the acquisition of Lemon Berhad, no additions or disposals of intangible assets occurred during the financial year ending on March 31, 2022.
- (5) During the year ended 31 March 2022 ordinary dividends were paid to both the shareholders of Fruitty Berhad and to the non-controlling interests.

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Lemon Berhad's- statement of financial position

	<u>RM</u>
Property, plant and equipment	471,400
Trade and other receivables	24,600
Cash and cash equivalents	2,600
Trade and other payables	<u>(37,400)</u>
	<u>461,200</u>

Requirements:

Using the indirect method, illustrate a consolidated statement of cash flows for Fruity Group for the year ended 31 March 2022, including a reconciliation of profit before taxes to cash generated from operations. A note showing the effects of the acquisition of Lemon Berhad is not required.

(15 marks)

PART B

Explain the differences between IFRS Standards and UK GAAP in respect of the financial reporting treatment of:

- (a) government grants
- (b) intangible assets
- (c) borrowing costs
- (d) non-controlling interests

(10 marks)

(Total: 25 marks)

End of Paper.